

## Metropolitan King County Council

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## MEMORANDUM

**DATE:** February 28, 2006

**TO:** Metropolitan King County Councilmembers

**FROM:** Cheryle A. Broom, County Auditor

**SUBJECT:** Performance Audit of King County's Human Services Contracting Practices

Attached for your review is the Review of King County's Human Services Contracting Practices performance audit report. The primary objective of the audit was to assess the extent to which the Department of Community and Human Services Community Services Division's (CSD) practices are consistent with human services contracting best practices. We focused on CSD contracts that receive county current expense and criminal justice funds, because the division has discretion in how it administers these contracts.

We concluded that CSD has developed effective partnerships with other human services organizations in King County, and further collaboration could improve the information available on the effectiveness of some human services programs in King County. We also found that CSD's current contracting practices adhere to some performance-based contracting best practices. However, the following recommended changes could improve contractor accountability:

- Consider an open selection process,
- Increase contracts' emphasis on achieving and tracking outcomes,
- Expand use of contractor performance data to inform management decisions, and
- Strengthen monitoring practices to better assess contractors' performance.

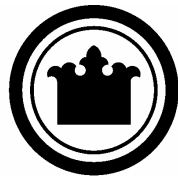
The County Executive concurred with four of the eight recommendations and partially concurred with the remaining recommendations. However, the explanations provided for partial concurrence appeared to be consistent with the intent of our recommendations. The Executive's response indicated that changes in practice and policy would be necessary to implement these recommendations, which we acknowledge and agree with.

The auditor's office would like to acknowledge the professionalism of the Community Services Division management and staff during the audit.

CB:WSH:yr

**PERFORMANCE AUDIT**

**REVIEW OF KING COUNTY'S  
HUMAN SERVICES  
CONTRACTING PRACTICES**



**King County**

Presented to  
the Metropolitan King County Council  
Labor, Operations & Technology Committee  
by the  
County Auditor's Office

Cheryle A. Broom, King County Auditor  
Wendy Soo Hoo, Senior Management Auditor

Report No. 2006-01  
February 28, 2006

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The King County Auditor's Office provides oversight of county government

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## **Alternative Formats Available Upon Request**

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CFSA	Children and Family Set-Aside
CSD	Community Services Division
CX	Current Expense
DCHS	Department of Community and Human Services
KCJI	King County Jobs Initiative

# EXECUTIVE SUMMARY

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## **Introduction**

This audit focuses on the Department of Community and Human Services (DCHS) Community Services Division's (CSD) approach to contracting for human services. We assessed the extent to which CSD's discretionary contracts adhere to best practices in performance-based contracting.<sup>1</sup> We also considered how these CSD contracts are aligned with the county's human services goals and incorporated into DCHS's performance measurement program.

## **General Conclusions**

The CSD discretionary contracts are consistent with the department's human services policy framework and CSD is collaborating with other entities in King County that provide human services funding to develop common outcome measures. Expanded collaborative efforts could further improve the information available on human services outcomes in King County. We also found that CSD's current contracting practices adhere to some performance-based contracting best practices. However, measures could be implemented to improve contractors' accountability for performance.

## **Scope and Objectives**

This performance audit reviewed CSD's approach to contracting for human services, including the extent to which human services contracts issued by the division are performance based. The audit also reviewed human services contracting best practices and considered how those practices can be incorporated to enhance CSD contracting activities.

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<sup>1</sup>The term "discretionary contracts" refers to contracts that are supported by county current expense and criminal justice funds. We focused on these contracts because CSD has flexibility in how they are administered.

### **Summary of Findings and Recommendations**

CSD has developed effective partnerships with other human services organizations in King County. Further collaboration could improve the information available on the condition of some human services programs in King County. We determined that the CSD contracts contain some performance-based components, but contractors' performance accountability could be strengthened. In addition, performance measures are not used to inform CSD's management decisions regarding contract awards or funding.

To more closely conform to performance-based contracting best practices, CSD should:

- Consider implementing a competitive process for selecting contractors or working with the county's Procurement and Contract Services Section to review and update county procurement policies if appropriate;
- Expand compensation terms to include linkages to contract outcomes and quality measures to strengthen performance incentives;
- Increase use of contract performance data in management decision-making processes;
- Establish guidelines and standards to improve target-setting practices; and
- Strengthen monitoring practices to better assess contractors' performance.

### **Summary of Executive Response and Auditor's**

#### **Comments**

The County Executive concurred with four of the eight recommendations and partially concurred with the remaining recommendations. However, the explanations for the partial concurrence appeared to be consistent with the intent of our recommendations. We acknowledge that changes in practice

and policy would be necessary to implement these recommendations. See the appendices section for the complete Executive Response and Auditor's Comments.

**Acknowledgement**

The King County Auditor's Office wishes to acknowledge the Department of Community and Human Services for its cooperation and professionalism. We are particularly appreciative of the time and effort provided by the management and staff of the Community Services Division during this review.

# 1 INTRODUCTION

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## **Audit Background**

This performance audit evaluated the Department of Community and Human Services (DCHS) Community Services Division's (CSD) approach to contracting for human services. CSD is one of four operational divisions within DCHS.<sup>2</sup>

The review focused on CSD's practices for contracts that receive county current expense and criminal justice funds, because CSD has flexibility in how it administers these contracts. We assessed the extent to which these discretionary contracts adhere to best practices in performance-based contracting. The audit also considered how CSD's contracts are aligned with the county's human services goals and incorporated into DCHS's performance measurement program.

## **Audit Objectives**

The objectives of the review were to:

- Provide an overview of CSD's approach to contracting and identify how the department monitors contract outcomes.
- Identify best practices in performance-based contracting for social services.
- Determine whether CSD's discretionary human service contracts are performance based.
- Examine whether there are linkages among contract outcomes, DCHS performance measures, and the county's human services goals.

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<sup>2</sup>The other three divisions are Developmental Disabilities; Mental Health, Chemical Abuse and Dependency Services; and the Office of the Public Defender.



- Provide examples of industry best practice performance-based contract elements for human service contracts to compare to King County's contracting practices.

### **Methodology**

We reviewed current literature on human services contracting and performance measurement to identify best practices. The audit also included a review of a sample of 16 human services contracts. Fifteen (15) of these contracts were selected from a population of 114 contracts that received discretionary county funding in 2004.<sup>3</sup> We also reviewed an additional King County Jobs Initiative (KCJI) contract, which was managed by the Business Relations and Development unit within the Executive's Office in 2004. The KCJI program, which funds job training and placement services, was not transferred to CSD until 2005. However, we included the contract in our sample because job training and placement services are one of DCHS's current priorities. KCJI also receives discretionary county funds and has flexibility in administering its contracts.

The purpose of the contract review was to assess whether these discretionary contracts are consistent with the department's goals and to determine whether they adhere to best practices for performance-based contracting. This audit was conducted in accordance with government auditing standards.

### **Scope of Work on Internal Management Controls**

This audit assessed CSD's processes for reviewing required performance reports and other invoice documents submitted by contractors to demonstrate that their performance was consistent with contract terms.

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<sup>3</sup>One of the contracts was managed by the King County Jobs Initiative program, which was organized within the Executive's Office Business Relations and Economic Development unit until 2005 when it was transferred to CSD. The remaining 15 sample contracts were managed by CSD in 2004.

**Community Services Division Contracting Background**

CSD's mission is to work in partnership with communities and other funding sources to strengthen individuals and families, and improve the viability and livability of communities. In 2004, CSD contracted with local agencies to provide adult day health and senior services, child care referral, domestic violence and sexual assault victim's assistance, homeless and shelter services, housing assistance, youth and family services, youth shelters, youth prevention and juvenile justice services, and other supportive services for the community.

CSD discretionary contracts are funded by county current expense (CX) and criminal justice funds. The CX funding includes support from the Children and Family Set-Aside (CFSA) within the CX fund, as well as rental payments made to the CX fund from the Solid Waste Division for use of county land at the Cedar Hills Landfill.<sup>4</sup>

Our review focused exclusively on CSD contracts from 2004 that were supported by discretionary county funds, because the county has discretion over how it administers these contracts in contrast to those supported by state or federal funding. As shown in Exhibit A below, CSD's total budget was \$52.1 million or 26 percent of the total DCHS budget of \$197 million. The population of contracts included in our review accounted for \$6.2 million of the CSD budget, including \$5.9 million in CX funding.

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<sup>4</sup>Source: <http://www.metrokc.gov/dchs/admin/2004Budget.htm>

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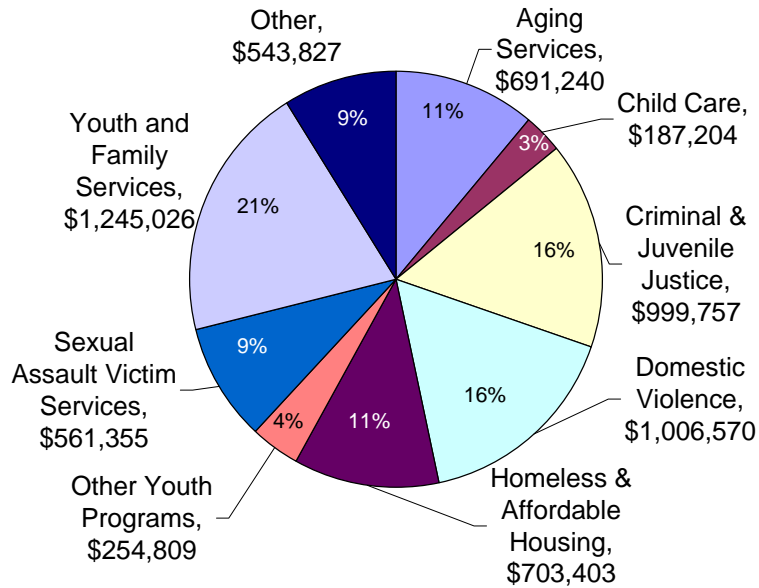
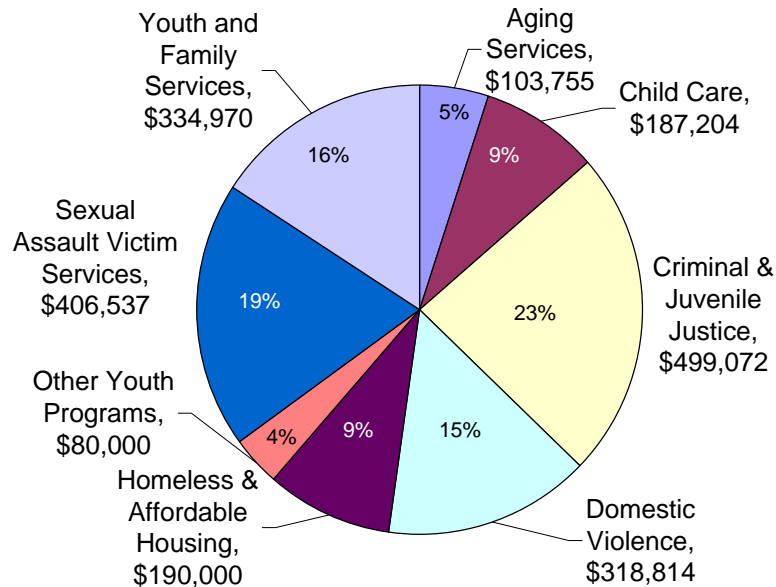
<b>EXHIBIT A</b>	
<b>King County 2004 Human Services Budget</b>	
DCHS 2004 Total Budget	\$197 million (all funds)
CSD 2004 Budget	\$52.1 million (all funds)
CSD Discretionary Contracts	\$6.2 million* <ul style="list-style-type: none"><li>▪ Current Expense: \$5.9 million</li><li>▪ Criminal Justice: \$0.3 million</li></ul>
<b>NOTE*:</b> Excludes King County Council contracts for special programs.	
<b>SOURCE:</b> King County 2004 Budget	

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As noted above, our review focused on a sample of 16 human services contracts that received discretionary county funds in 2004. Exhibit B below shows the distribution of the total contract funds and the characteristics of the sample reviewed.<sup>5</sup>

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<sup>5</sup>Exhibit B excludes the King County Jobs Initiative sample contract because the jobs initiative program was managed within the Executive's Office Business Relations and Economic Development unit until 2005.

**EXHIBIT B****County Allocations by Service Category****All 2004 CSD Discretionary Contracts - \$6.2 Million****2004 Sample CSD Discretionary Contracts - \$2.1 Million**

**NOTE:** The "other" category in the "All 2004 Contracts" pie chart includes contracts for legal assistance, women's advisory board services, citizens' participation initiatives, and homeless youth shelters.

**SOURCE:** Community Services Division Contracting Data 2004.

Exhibit B shows that contracts for youth and family services (21 percent), criminal and juvenile justice programs (16 percent), and domestic violence programs (16 percent) received the largest percentages of total county funding for the discretionary contracts. Our sample also emphasized these program areas, as shown in the second pie chart. We also selected large contracts from the following program areas: sexual assault victim services; homeless and affordable housing; child care programs; other youth programs; and aging services.

# 2 HUMAN SERVICES POLICY FRAMEWORK

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## Chapter Summary

This chapter describes the policy context that guides the Department of Community and Human Services' (DCHS) activities, including contracting. The *Framework Policies for Human Services* was adopted in 1999 and designed to clarify King County's role in human services and set broad priorities for the use of discretionary county current expense and criminal justice funds. The audit considered how the Community Services Division's (CSD) contract process is aligned with this policy framework, as well as DCHS's business plan and performance measurement program.

## Summary of Findings

CSD has established effective partnerships with the United Way, City of Seattle, City of Bellevue, and the South King County Human Services Forum. Representatives from these entities are currently participating in a Regional Outcomes Alignment Group to establish common contractor outcome measures. These measures are used by the entities to assess their contractors' performance in meeting human services goals.

## Summary of Recommendations

CSD should continue working with the Regional Outcomes Alignment Group to develop common outcome measures. CSD should also propose sharing outcome data among the group to enhance the information available to assess progress in meeting human services goals.

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**DCHS HAS DEVELOPED EFFECTIVE PARTNERSHIPS WITHIN THE REGION  
AND ENHANCED COLLABORATION COULD FURTHER IMPROVE THE  
INFORMATION AVAILABLE ON HUMAN SERVICES OUTCOMES.**

In September 1999, the Metropolitan King County Council adopted a set of *Framework Policies for Human Services* by ordinance.<sup>6</sup> The framework was designed to clarify King County's role in human services and set broad priorities for the use of discretionary county funds. The framework recognizes the county's regional leadership role in planning and advocating for human services needs; working with regional partners; resource development; and providing funding for human services. While the framework applies to all human services in which the county is involved, it provides specific direction on the use of county-generated tax resources (current expense and criminal justice funds) for human services.<sup>7</sup>

The framework also identifies five goals that the county seeks to achieve through its activities and investments in human services. The broad goals constitute the overarching framework which guides the county's involvement in human services. The goals were developed through a community process sponsored by United Way of King County, in cooperation with a King County children and family commission. The five community-wide goals are:

- **Food to eat and a roof overhead**

Ensure that the essential food and housing needs of all people in King County are met.

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<sup>6</sup>Ordinance 13629.

<sup>7</sup>The framework states that current expense and criminal justice funds should be prioritized to help provide access to a basic array of human services for residents of unincorporated King County, according to need; help assure access to a basic array of human services for persons most in need, regardless of where they live; and to reduce the impacts on the county's juvenile justice and adult criminal justice systems.

- **Supportive relationships within families, neighborhoods, and communities**  
Ensure all people in King County experience positive and supportive relationships in their families and communities.
- **A safe haven from all forms of violence and abuse**  
Ensure that all people in King County are safe and feel secure in schools, in their homes, and in their communities.
- **Health care to be as physically and mentally fit as possible**  
Promote and enhance the health of all people in King County, and assist them to attain and maintain the greatest functional independence as possible.
- **Education and job skills to lead an independent life**  
Help all people in King County become as economically self sufficient as their abilities permit.

These goals have also been embraced by various organizations and other governments throughout the county, including the cities of Seattle and Bellevue and the South King County Human Services Forum.<sup>8</sup>

These five goals provide policy direction for the activities funded by the Department of Community and Human Services (DCHS). During our fieldwork, we determined that each of the contracts reviewed during this audit was consistent with the framework goals. In addition, select performance data reported by CSD contractors are included in DCHS's business plan and performance measurement program to assess progress towards achieving the five overarching goals.

DCHS is also collaborating with the other entities that have adopted the five community-wide goals by forming a Regional Outcomes Alignment Group. The group developed a common

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<sup>8</sup>The South King County Human Services Forum is comprised of representatives from cities in south King County.



form for contractors to report client demographic information and has begun developing common outcome measures to streamline contractors' reporting processes. During 2005, the Regional Outcomes Alignment Group finalized a set of shared output and outcome measures for homelessness and transitional housing that all of the group's member entities planned to incorporate into future contracts with community agencies. The group also planned to begin identifying shared output and outcome measures for additional service areas.

These collaborative initiatives are noteworthy for their efforts to establish a common direction for key planning entities in organizing, funding, and evaluating human services performance throughout King County. At this time, however, performance data on human services outcomes are not shared among the group. Sharing and reviewing outcome data among the group could provide an opportunity to improve the information available on human services conditions in King County.

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**RECOMMENDATION 1**

CSD should continue efforts to develop common outcome measures with the Regional Outcomes Alignment Group. CSD should also propose to share performance data among the group to enhance the information available to assess progress in meeting human services goals.

# **3 COMMUNITY SERVICES DIVISION CONTRACTING PRACTICES**

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## **Chapter Summary**

This chapter assesses the extent to which the Community Services Division's (CSD) contracting practices adhered to performance-based contracting best practices. We concluded that the discretionary CSD contracts we reviewed include some performance-based components and could be improved to strengthen contractor accountability.

## **Summary of Findings**

CSD's contracts, including the KCJI contract, partially adhered to performance-based contracting best practices. We determined that the CSD contracts contain some performance-based components, but contractors' performance accountability could be strengthened. In addition, use of contract performance data could be expanded to inform DCHS's management decisions regarding contracting awards or funding.

## **Summary of Recommendations**

CSD should take the following actions to improve its contracting practices:

- Consider implementing a competitive process for selecting contractors or working with the county's Procurement and Contract Services Section to review and update county procurement policies if appropriate;
- Expand compensation terms to include linkages to contract outcomes and quality measures to strengthen performance incentives;
- Develop guidelines for setting performance targets and benchmarks;

- Utilize contractors' performance data in management decision-making processes; and
  - Establish standards and guidelines for monitoring contractors' program performance and providing training to contracting staff.
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## BACKGROUND ON PERFORMANCE-BASED CONTRACTING

Performance-based contracting is receiving increased attention as a method of improving the efficiency, quality and effectiveness of human service delivery, and ensuring that providers are accountable for achieving results and reporting useful information for management. Progressive efforts at the international, national, and local levels to improve human service delivery are focusing on the outcomes achieved with the dollars spent.

A 2005 study by a leading researcher on performance-based contracting concluded that “performance-based contracting appears to be accomplishing its primary objective: changing the behavior of contractors to focus more on performance.”<sup>9</sup> The study summarized the results of seven states' human services agencies' performance-based contracting initiatives. The case studies showed that not only did contractor interest and concern with performance increase under performance-based contracting, but also results and outcomes improved as well.

Our research also identified best practices in performance-based contracting, which were used to develop a set of evaluative criteria. These criteria were used in assessing the county's human services contracting practices. A brief comparison of the best practices and the county's contracting practices is illustrated in Exhibit C below. The county's contracting practices are

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<sup>9</sup>Lawrence L. Martin, “Performance-Based Contracting for Human Services: Does It Work?” *Administration in Social Work*, Vol. 29(1) 2005.

partially consistent with best practices, but can be improved to strengthen performance accountability. Again, our sample included discretionary contracts administered by CSD and KCJI in 2004.

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**EXHIBIT C**
**Summary of Performance-Based Contracting Best Practices and  
King County Human Services Contracting Practices**

	<b>Best Practice</b>	<b>Community Services Division Contracts</b>	<b>King County Jobs Initiative Contracts</b>
<b>Contract Award Process</b>	Competitive selection	Noncompetitive selection	Competitive selection
<b>Payment Model and Use of Performance Incentives</b>	Payment linked to outcomes, outputs, and quality of service	Historic contract award amount with payment linked to outputs	Historic contract award amount with payment linked to outputs, outcomes, and quality measures
<b>Performance Measures Required</b>	Outcomes, outputs, and quality should be measured and benchmarked	Outcome, output, and some quality measures required--effectiveness of target-setting practices varied	Outcome, output, and quality measures required
<b>Post-Contract Audit or Assessment Conducted</b>	Post-contract audits should focus on performance	Post-contract audits do not provide sufficient information on performance	Post-contract audits do not provide sufficient information on performance
<b>Use of Performance Data</b>	Data should inform management about progress in meeting organizational goals	Limited CSD management use of contract performance data	Limited CSD management use of contract performance data

**SOURCE:** King County Auditor's Office best practices research and audit fieldwork.

**THE COMMUNITY SERVICES DIVISION CONTRACTS CONTAINED SOME PERFORMANCE-BASED COMPONENTS, BUT CONTRACTORS' PERFORMANCE ACCOUNTABILITY COULD BE STRENGTHENED.**

The 2005 study discussed earlier in this chapter showed that a range of strategies can be used to implement performance-based contracting. In some cases, state human services agencies included in the study implemented performance-based contracting by setting quarterly outcome targets and closely monitoring the performance of its contractors.

In other cases, milestone approaches were utilized, in which contractors received a fixed payment or percentage of a fixed total fee when individual clients achieved outcomes, outputs, and quality measures. Specific process points (such as a client's initial entry into the program or development of a treatment plan) could also serve as compensation milestones, although contractors do not receive full compensation for a client until the client achieves a final positive outcome. Although the specific approaches may vary, all performance-based contracting models emphasize the outcomes achieved rather than prescribing specific service delivery methods. Also, all of the performance-based contracting models depend on reliable and consistent data to inform management decisions.

Exhibit D below demonstrates a range of contracting approaches that can be used and shows how contractors' performance incentives vary depending on the approach.

EXHIBIT D	
Examples of Performance-Based Contracting Approaches	
<p><i>Higher</i></p> <p><i>Contractor Performance Incentive</i></p> <p><i>Lower</i></p>	1. Contractors are paid for outcomes
	2. Contractors are paid for outcomes and combination of inputs, process points, outputs, and/or quality
	3. Contractors are paid for outputs
	4. Contractors earn additional incentive payments for outcomes, outputs, and quality
	5. Non-monetary incentive for contractors to meet performance standards (i.e., reduction in caseload)
	6. Contractors must meet performance standards to be eligible to receive new contracts
	7. Contractors are required to report output, quality, and outcome data

**SOURCE:** Adapted from Lawrence L. Martin presentation, "Performance-Based Contracting For Social Services: The State of the Art," 2005 National Conference on Performance Measurement and Performance Contracting for Social Services.

Although the specific contract terms may differ, all of the examples shown above focus to some extent on the results achieved.

The Community Services Division's (CSD) contracting model is most closely aligned with Approaches 3 and 7. Contractors must meet output targets to receive compensation and also must provide data on outcomes achieved. All of the CSD contracts included in the review required contractors to:

- Establish targets for outputs;
- Report monthly or quarterly on output totals achieved;
- Achieve at least 90 percent of the monthly or quarterly output target to receive payment;
- Identify desired outcomes and the indicators used to measure the outcomes; and
- Provide outcome indicator data.

These requirements are consistent with common practices in human services performance-based contracting. However, the

review of 16 sample contracts demonstrated that measures to ensure contractors' accountability for performance could be improved. Contractors' accountability could be improved through consideration of an open selection process, increased emphasis on outcomes, greater use of contractor performance data to inform management decisions, and stronger monitoring.

**Contracts Are Awarded Repeatedly Without an Open Selection Process.**

With the exception of King County Jobs Initiative (KCJI) contracts, CSD's discretionary contracts are typically issued repeatedly to historic community providers. (In contrast, the KCJI program issues a request for proposals every three years.) Most recently, CSD's historic contractors and their individual funding awards were specifically identified in the budget ordinances for 2005 and 2006, restricting the division's ability to contract with different community agencies.

CSD's contracts are categorized by the county's Procurement and Contract Services Section as community service contracts. These contracts are used when a county agency wishes to provide funds for direct services to county residents. For example, CSD issues a community services contract when it contracts with a community agency that provides counseling and emergency housing services for domestic violence victims.

These contracts are distinguished from other contracts for goods or services. According to the Procurement and Contract Services Section, community services contracts have historically been exempted from the solicitation requirements of the King County Code Chapter 4.16. As a result, CSD has not been required to coordinate with the Procurement and Contract Services Section to administer competitive selection processes for these contracts.

However, the Procurement and Contract Services Section guidelines encourage agencies that use community services contracts to establish a competitive process if any of the following circumstances apply:

- There is more than one qualified potential contractor.
- The available dollar amount does not allow all qualified contractors to participate in service delivery.
- The service has not been solicited competitively via a request-for-proposals process in at least three years.

CSD generally only employs a competitive selection processes when a new program is developed. We were unable to verify whether the available dollar amount prevented any qualified contractors from participating in service delivery, but division program managers acknowledged that agencies may exist that are not currently receiving contracts and are unable to obtain funding through the existing contract award process. Again, with the exception of the KCJI contracts, the CSD contracts have been awarded to historic providers repeatedly without a competitive solicitation process. Based on the criteria above, CSD may want to consider proposing a process that would allow for periodic competitive selection of contractors.

In addition, the authority to exempt these contracts from the county's solicitation requirements is not clear in all cases. King County Code Chapter 4.16 does not specifically discuss contracts for services provided directly to the public, although section 4.16.150 identifies 12 organizations that are exempt from the county's solicitation requirements, including Youth Service Bureaus and the United Way. The King County Administrative Policies and Procedures (Exemptions to the Purchase Order/Contract Requirements Section 6.4.2) also indicate that purchases where the county's liability is cited in law are exempt from the requirements of an official contract. This policy has



been cited to justify the lack of a competitive selection process for the special project contracts identified in council budget provisos. If county policy makers wish to continue the broader practice of exempting all community services contracts from the competitive solicitation requirements, these code provisions and administrative policies may need to be reviewed and possibly updated.

Finally, the continual renewal of contracts without a competitive or open contractor selection process is also inconsistent with best practices. Best practices research suggests that a periodic competitive selection process provides incentive for contract agencies to improve performance or maintain high levels of performance and also can allow new community providers to obtain contracts. CSD may want to consider implementing a periodic competitive selection process, consistent with human services contracting best practices.<sup>10</sup>

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**RECOMMENDATION 2**

CSD should consider proposing implementation of a periodic competitive selection process for all discretionary contracts. Any significant changes in policy could be proposed in the Human Services Recommendations Report.<sup>11</sup> If DCHS and county policy makers choose to continue selecting human services contractors without a competitive process, the procurement provisions of the county code and other county policies should be reviewed and updated accordingly.

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<sup>10</sup>It should be noted that the current contracting process is linked to the timing of the county's budget process. CSD currently initiates its contracting process after the county budget for the following year is approved each November. CSD attempts to execute all contracts during December so that contractors can begin providing services in January. Any proposal to develop a competitive selection process should consider coordinating the timing of the contractor selection and budget processes.

<sup>11</sup>The ordinance adopting the Framework Policies requires DCHS to submit a Human Services Recommendations Report every three years to provide an assessment of current human service activities, assess progress made toward achieving community goals, report on program evaluation results, and offer recommendations for the future.

**Contractors' Compensation Is Linked to Outputs Rather Than Outcome Performance.**

With the exception of KCJI contractors, the compensation of CSD's contractors is linked to output performance, but not to outcome or quality measures.<sup>12</sup> Contractors are generally required to achieve 90 percent of their output goals to receive full payment for each reporting period or their compensation will be reduced proportionally. Best practices suggest that the greater the percentage or amount paid for outcomes increases the link between compensation and performance, and that tying performance incentives to outcome and quality measures as well as outputs can motivate agencies to improve all aspects of performance.

The KCJI sample contract more closely adhered to best practices by linking the contractor's compensation to quarterly targets for:

- Outputs—number of clients enrolled;
- Process points—number of clients who develop employment plans and number of clients placed in training;
- Short-term outcomes with specific quality requirements—clients placed in a job that pays a livable wage of at least \$9 per hour with at least 30 hours per week; and
- Long-term outcomes—clients who retain their jobs for at least one year.

While best practices recommend linking compensation to outcomes and quality measures in addition to output measures, CSD contracts would also need to be structured to ensure that agencies were not penalized for working with difficult populations or providing services that require significant time before final

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<sup>12</sup>An example of an output is the number of bednights an agency provides to a homeless client. In contrast, an outcome would be the number of clients who move into and stay in permanent housing for six months. A quality measure might indicate the desirability of the housing (i.e., whether the location of the permanent housing was close to transportation or provided other amenities).

outcomes can be achieved. For example, weighted formulas could be used to encourage agencies to continue to work with difficult populations or to provide more intensive services.

CSD management indicated that compensation has not been linked to outcomes for all contracts because the county provides only a fraction of the contractors' total revenues. County contracts provided an average of 24 percent of the sample contractors' total revenues.<sup>13</sup> However, linking compensation to outcomes and quality measures could still improve contractors' accountability for the funding it receives from the county.

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**RECOMMENDATION 3**

CSD should consider expanding compensation terms to include linkages to outcomes and quality measures through bonuses or other incentives. Any changes in compensation terms should also be structured to ensure that agencies are not penalized for working with difficult populations or providing services that may require significant time before final outcomes can be achieved.

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**Some Contractors Did Not Always Provide Required Performance Data, but Still Received Payments.**

During the audit, we determined that some contractors did not always provide required output or outcome data, but still received payments. In 2004, seven of the 16 contractors (44 percent) did not provide all of the required output or outcome data.<sup>14</sup>

Performance incentives will not be effective if agencies are not accountable for providing required performance data. Agencies must provide valid data to demonstrate that they are achieving

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<sup>13</sup>The median county share was 16 percent, so county funds accounted for less than 16 percent of total contractor revenue for half of the contracts and more than 16 percent for half of the contracts. The average and median figures are based on budget data for the 15 non-KCJI contracts.

<sup>14</sup>Contractors' year-end performance data was available for only 31 of 37 required output measures and 26 of 31 required outcome measures.

desired results. CSD's contract staff should closely review contractor reports to verify that all required data is provided and that the data demonstrate that a contractor is providing the services required by its contract. If an agency is unable to provide data, the contract staff should report the problem to DCHS management and document the county's rationale for accepting reporting requirements. This will help ensure that community agencies are accountable for providing contract services and that the county is achieving best value from its contracts.

CSD management indicated that it has enhanced its tracking systems since our audit fieldwork was completed. The division now requires contractors to provide electronic reports and has developed an automated system to verify that all reports are received.

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**RECOMMENDATION 4**

Contract staff should review all invoices and accompanying documents closely and when a contractor cannot provide required data the CSD contract staff should report the problem to CSD management and document the county's rationale for accepting reduced reporting requirements.

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**Target-Setting Practices Varied Across Contracts. Some Targets Did Not Provide Useful Benchmarks for Measuring Performance.**

CSD's target-setting practices varied across contracts. While all contracts included targets for outputs, only three of the 16 sample contracts established targets for outcome indicators. In addition, contractors' performance in 12 of the 31 (39 percent) reported output categories exceeded targets by more than 150 percent. On average, the 12 output measures exceeded targets

by 377 percent, with one output measure that exceeded its target by 882 percent. The 12 output targets were exceeded because some performance data reflected quantities of services that were not fully funded by the county or because historical output data were not available to develop meaningful or reasonable targets.

If agencies routinely exceed targets by significant margins, the targets will not provide useful benchmarks for measuring performance. As a result, the data reported did not convey the quantity of services provided with county funding or their results. Current target-setting practices should be evaluated to determine how to ensure that the measures are useful and valuable to both CSD and the contractor and more accurately represent the services provided with county funds. However, any changes in performance targets should be carefully considered. Appropriate measures should be taken to ensure that agencies do not have incentive to reduce service quality or to reduce services for difficult populations in order to meet performance targets.

CSD does not have guidelines on setting targets or policies that articulate the purpose of the targets to its contracting staff. Instead, CSD's contract training currently focuses on procedural and administrative components of the contracts and contract process, such as how to complete and format contract boilerplates and documents. Enhanced training that emphasizes contractors' program performance could enable the division to more fully realize the benefits of performance-based contracting.

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**RECOMMENDATION 5**

CSD should assess its current practices for setting performance targets and provide training or guidelines to ensure that program managers and other contracting staff understand the purpose of setting performance targets and how to utilize performance data.

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**PERFORMANCE MEASURES ARE NOT USED COMPREHENSIVELY TO INFORM MANAGEMENT DECISIONS REGARDING CONTRACT AWARDS OR FUNDING.**

Most of the output and outcome performance data obtained through the CSD contracts are not used to inform management decisions regarding contracting awards or funding. As noted in Chapter 2, the outcome measures reported for the sample contracts were consistent with the broad framework goals. In addition, five of the outcome measures from our sample were included in the DCHS performance measurement program, which aligns data measures with the county's human services goals and other key DCHS priorities. (No KCJI indicators were included because KCJI was managed within the executive's office until 2005.)

Other contract outcome and output measures are used primarily by contract staff to confirm that contractors are meeting their performance requirements. CSD also uses the data to respond to management and council requests for information on service levels in selected communities or to demonstrate service levels in potential annexation areas so that municipalities better understand the services they must supplant.

However, CSD should consider utilizing performance data more comprehensively to enhance internal decision-making processes. In particular, performance data could be used to ensure that contract award and funding decisions reflect the department's current priorities and efforts to achieve progress towards the county's overarching human services framework goals.

Currently, contract award and funding decisions are not made with consideration of the county's current human services priorities, or contract agencies' performance or service levels. With the exception of the aging services and youth and family services contracts, most of the current contract amounts

(69 percent of the total contract funds) are based on historic amounts that have been awarded annually without being adjusted for inflation or updated to reflect changes in department priorities or agencies' performance.<sup>15</sup>

Under current DCHS practices, the allocation of resources will not reflect changes in priorities, contractor performance, or demographic trends. DCHS should assess the effectiveness of its strategy for determining annual contract award amounts to determine whether funding practices are consistent with department objectives. Any significant changes in policy could be proposed in the Framework Recommendations Report that DCHS is required to issue every three years.

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**RECOMMENDATION 6**

DCHS should determine which contract performance data should be used to inform decision-making processes, such as decisions regarding contractor selection and the amount of funding.

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**RECOMMENDATION 7**

DCHS should evaluate the effectiveness of its strategy for determining annual contract award amounts to determine whether funding practices are consistent with the department's objectives and strategic business plan, or could be improved to more effectively meet the county's human services goals. DCHS should also consider whether contractor funding allocations should be linked to outcome performance.

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<sup>15</sup>The aging services and youth and family services contract awards, which comprised 11 percent and 20 percent of CSD's current expense contract expenditures for 2004, are based on specific funding formulas. The aging services funding formula distributes funds based on the relative densities of the senior populations in incorporated and unincorporated areas served by each senior center. The formula was approved by the Regional Policy Committee in 2001 and guides development of the annual budgets for the aging services program. The youth and family services funding formula was approved by council in 1991 and distributes funds to school districts at a ratio of 3:1 (# of students in unincorporated to incorporated areas).

**CSD'S MONITORING PRACTICES COULD BE STRENGTHENED TO BETTER ASSESS CONTRACTORS' PERFORMANCE.**

DCHS requires contract staff to conduct a site visit at least every other year for contracts valued at greater than \$50,000. CSD also expects contract staff to provide greater oversight of contracts when any performance issues or questions arise from activity reports, invoices, or additional materials required in the contract, and from community members, the county ombudsman, or agency directors or staff. The current monitoring practices allow CSD contract staff the flexibility to focus on agencies that demonstrate high-risk factors such as performance and reporting issues.

However, in-depth guidelines and standards for monitoring site visits are not available to assist staff in evaluating contractors' program performance or to evaluate their data systems.<sup>16</sup> Contract staff conduct site visits and interview staff from contract agencies using a boilerplate checklist and a program performance checklist. Training is not provided to ensure that contract staff are able to thoroughly review and understand contractors' programs to answer the questions on the program performance checklist.

In addition, CSD contract staff indicated varying methods for reviewing contractors' data tracking systems. While some contract staff only obtain a general understanding of the data tracking systems the contractors used to provide outcome or output data, other contract staff select a sample of client files for in-depth review. KCJI, for example, receives data regularly from contractors on actual clients served. The KCJI contract staff selects samples of clients for whom contractors have received compensation and reviews their case files during the monitoring

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<sup>16</sup>CSD has developed standards for assessing contractors' compliance with boilerplate requirements.



site visits. Standards and expectations for conducting site visits and desk reviews could be developed to ensure that monitoring practices are consistent and provide useful information on contractors' performance.

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**RECOMMENDATION 8**

CSD should develop standards and expectations for conducting site visits and desk reviews, which are clearly and regularly communicated to contract staff. Periodic training should also be provided to ensure that contract staff understand how to review invoices and output and outcome data for contract compliance.

## **APPENDICES**

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## LIST OF FINDINGS, RECOMMENDATIONS & IMPLEMENTATION SCHEDULE

**Recommendation 1:** The Community Services Division (CSD) should continue efforts to develop common outcome measures with the Regional Outcomes Alignment Group. CSD should also propose to share performance data among the group to enhance the information available to assess progress in meeting human services goals.

**Scheduled Implementation Date:** September 30, 2006

**Estimate of Impact:** Sharing information on effectiveness of specific services and programs and outcome trends could allow CSD to more comprehensively assess the condition of human services in King County and enhance the information available to county decision makers.

**Recommendation 2:** CSD should consider proposing implementation of a periodic competitive selection process for all discretionary contracts. Any significant changes in policy could be proposed in the Human Services Recommendations Report. If DCHS and county policy makers choose to continue selecting human services contractors without a competitive process, the procurement provisions of the county code and other county policies should be reviewed and updated accordingly.

**Scheduled Implementation Date for a Proposal:** December 31, 2006

**Estimate of Impact:** If a periodic competitive selection process is implemented, CSD could more effectively allocate resources to services based on county human services priorities and provide a strong performance incentive for contractors. A competitive selection process could also lead to greater innovation and strengthen the focus on contractors' performance.

**Recommendation 3:** CSD should consider expanding compensation terms to include linkages to outcomes and quality measures through bonuses or other incentives. Any changes in compensation terms should also be structured to ensure that agencies are not penalized for working with difficult populations or providing services that may require significant time before final outcomes can be achieved.

**Scheduled Implementation Date for a Proposal:** December 31, 2006

**Estimate of Impact:** Implementation of this recommendation could improve contractors' performance accountability by strengthening the linkage between compensation and actual results (i.e., outcomes and quality).

**Recommendation 4:** Contract staff should review all invoices and accompanying documents closely and when a contractor cannot provide required data the CSD contract staff should report the problem to CSD management and document the county's rationale for accepting reduced reporting requirements.

**Scheduled Implementation Date:** September 30, 2006

## **LIST OF FINDINGS, RECOMMENDATIONS & IMPLEMENTATION SCHEDULE (Continued)**

**Estimate of Impact:** Closer review of contractors' performance reports and other required documentation prior to approving payments should increase accountability and contract compliance.

**Recommendation 5:** CSD should assess its current practices for setting performance targets and provide training or guidelines to ensure that program managers and other contracting staff understand the purpose of setting performance targets and how to utilize performance data.

**Scheduled Implementation Date:** December 31, 2006

**Estimate of Impact:** Establishing standards and providing additional training should result in more effective, meaningful, and reasonable performance targets, for which contractors are accountable.

**Recommendation 6:** DCHS should determine which contract performance data should be used to inform decision-making processes, such as decisions regarding contractor selection and the amount of funding.

**Scheduled Implementation Date:** December 31, 2006

**Estimate of Impact:** Expanded use of performance data in decision-making processes should result in more effective allocation of contract awards and funding.

**Recommendation 7:** DCHS should evaluate the effectiveness of its strategy for determining annual contract award amounts to determine whether funding practices are consistent with the department's objectives and strategic business plan, or could be improved to more effectively meet the county's human services goals. DCHS should also consider whether contractor funding allocations should be linked to outcome performance.

**Scheduled Implementation Date for a Proposal:** December 31, 2006

**Estimate of Impact:** Implementation of this recommendation should result in contract awards that are more consistent with the county's priorities.

**Recommendation 8:** CSD should develop standards and expectations for conducting site visits and desk reviews, which are clearly and regularly communicated to contract staff. Periodic training should also be provided to ensure that contract staff understand how to review invoices and output and outcome data for contract compliance.

**Scheduled Implementation Date:** December 31, 2006

**Estimate of Impact:** Developing and communicating standards for monitoring contractors' performance should enable contract staff to better assess contractors' program performance and increase contractors' performance accountability.

## EXECUTIVE RESPONSE



**King County**  
**Ron Sims**  
King County Executive  
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TTY Relay: 711  
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**RECEIVED**

**FEB 24 2006**

**KING COUNTY AUDITOR**

February 24, 2006

Cheryle A. Broom  
King County Auditor  
Room 1020  
COURTHOUSE

Re: Performance Audit King County's Human Services Contracting Processes

Dear Ms. Broom:

Thank you for the opportunity to review your Performance Audit of the Human Services Contracting Practices. I appreciate the County Council's interest in best practices contracting for human services. With limited resources for human services and growing demands it is critical that King County use those contracting processes which ensure that the services provided are performance based.

As you may be aware, the Community Services Division (CSD) has been in a difficult financial and programmatic position in recent years as mandatory county services have consumed increasingly large shares of current expense revenues and the demand for services has increased. While the Department of Community and Human Services (DCHS) has always been aware of the importance of using best practices, there has not always been sufficient resources to continue to develop them at a time when the basic existence of a program area was in question. Now that CSD appears to be set to experience more stable funding, this is an appropriate time to consider them. We look forward to working on refining our systems and implementing your recommendations.

The DCHS concurs with most of the recommendations. However, in some of the recommendations DCHS partially concurs and provides some explanatory information on the partial concurrence. We have also indicated areas where we have improved our performance since the 2004 contracting practices which were the subject of this audit.

A primary consideration is the current format of the budget ordinance for CSD's discretionary contracts. The current format specifies which human services agencies will receive service contracts and the amount of those contracts. DCHS is proposing to work with the Office of Management and Budget and County Council staff during the 2007 budget development process to explore the idea of a periodic competitive process and create a timeline for implementation. Policy changes will be reviewed along with the Human Services



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and complies with the Americans with Disabilities Act*



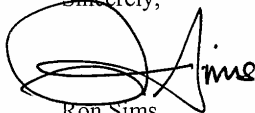
## EXECUTIVE RESPONSE (Continued)

Cheryle A. Broom  
King County Auditor  
February 24, 2006  
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Recommendations Report, which is being reviewed as part of the Veterans and Human Services levy planning process in 2006.

Our responses are contained in the enclosed Executive Response form requested by your office. If you require additional information, please do not hesitate to contact Marty Lindley, Business Director, King County Department of Community and Human Services, at 206-296-5212. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ron Sims', with a stylized flourish at the end.

Ron Sims  
King County Executive

Enclosure

cc: Kurt Triplett, Chief of Staff, King County Executive Office  
Sheryl Whitney, Assistant County Executive  
Paul Tanaka, County Administrative Officer, Department of Executive Services (DES)  
Bob Cowan, Director, Office of Management and Budget  
David Lawson, Manager, Executive Audit Services  
Ken Guy, Director, Finance and Business Operations Division, DES

## EXECUTIVE RESPONSE (Continued)

### EXECUTIVE RESPONSE

Recommendation	Agency Position	Schedule for Implementation	Comments
1. Community Services Division (CSD) should continue efforts to develop common outcome measures with the Regional Outcomes Alignment Group. CSD should also propose to share performance data among the group to enhance the information available to assess progress in meeting human services goals.	Concur	CSD will develop a plan to collect, produce, and disseminate performance data and present to the Outcome Alignment Group members by September 30, 2006.	CSD staff are a part of the Outcomes Alignment Group (OAG). Other members are the City of Seattle, United Way and the City of Bellevue. The OAG meets monthly to produce common outcomes for all human services funded by the members.  OAG has established a set of common demographics for all member contracts and common outcomes for services to homeless populations. The latter is a key component of the Safe Harbors regional case management information system. CSD is using the common outcomes in its current homelessness contracts.
2. CSD should consider proposing implementation of a periodic competitive selection process for all discretionary contracts. Any significant changes in policy could be proposed in the Human Services Recommendations Report. If Department of Community and Human Services (DCHS) and county policy-makers choose to continue selecting human services contractors without a competitive process, the procurement provisions of the county code and other county policies should be reviewed and updated accordingly.	Partially concur	DCHS will work with the Office of Management and Budget (OMB) and County Council staff during the 2007 budget development process to explore the idea of a periodic competitive process and create a timeline for implementation.  Policy changes will be reviewed along with the Human Services Recommendations Report, which is being reviewed as part of the Veterans and Human Services levy planning process.	The 2005 and 2006 annual budget ordinances have directed CSD to provide specified dollar amounts to named agencies. CSD will not be able to select contractors by any alternative process until these restrictions are removed, hence the need to work with OMB and County Council staff.  The procurement provisions of the King County Code exempt some human services providers, including the Youth and Family Services Agencies (YFSA), from competitive procurement processes. For the YFSAs to be part of a competitive process will require a Code change.

King County Auditor's Report--DCHS Contracting Practices

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## EXECUTIVE RESPONSE (Continued)

### EXECUTIVE RESPONSE

Recommendation	Agency Position	Schedule for Implementation	Comments
3. CSD should consider expanding compensation terms to include linkages to outcomes and quality measures through bonuses or other incentives. Any changes in compensation terms should also be structured to ensure that agencies are not penalized for working with difficult populations or providing services that may require significant time before final outcomes can be achieved.	Partially concur	DCHS will work with the Office of Management and Budget (OMB) and County Council staff during the 2007 budget development process to explore the idea of a periodic competitive process and create a timeline for implementation.  Alternative methods of compensation that might result in higher or lower dollar amounts to a specific agency cannot be considered until the current format of the budget ordinance is changed.	CSD contractors have received no cost of living increases to contract amounts, and in the last ten years many have experienced decreases because of the county's financial condition. To truly offer positive incentives, additional funding is required.
4. Contract staff should review all invoices and accompanying documents closely and when a contractor cannot provide required data the CSD contract staff should report the problem to CSD management and document the county's rationale for accepting reduced reporting requirements.	Concur	More training on reporting oversight will be provided in the first three quarters of 2006.  The DCHS Contract Guidelines will be updated by September 2006 to be specific about the need to amend a contract when a change in required data is being negotiated.	CSD has recently improved its performance reporting monitoring. All performance reports are now submitted and tracked electronically. Contract monitors can quickly review which of their contractors' reports have been received. Contract monitors must approve all performance reports before submittal for data entry.
5. CSD should assess its current practices for setting performance targets and provide training or guidelines to ensure that program managers and other contracting staff understand the purpose of setting performance targets and how to utilize performance data.	Concur	During the contract preparation process, which begins in the third quarter of 2006, training will be provided on the purpose of performance data and how to use performance data to construct targets.  As a result of the training, CSD will review proposed performance targets against historical performance and use the results to refine contract targets.	CSD has recently added reports that compare contractors' quarterly performance against quarterly targets.  Contract language was strengthened for 2006 so that the consequences of financial underperformance are clearly articulated.

King County Auditor's Report--DCHS Contracting Practices

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## EXECUTIVE RESPONSE (Continued)

### EXECUTIVE RESPONSE

Recommendation	Agency Position	Schedule for Implementation	Comments
6. DCHS should determine which contract performance data should be used to inform decision-making processes, such as decisions regarding contractor selection and the amount of funding.	Partially concur	In addition, this information will inform the overall DCHS performance measure development process. During 2006 CSD is developing measures to be used as management indicators to inform their decision making processes and as a part of the overall development of department performance measures.	Use of performance data for contractor selection is contingent on changes in restrictions limiting the current contractor selection process. See item #2 above.
7. DCHS should evaluate the effectiveness of its strategy for determining annual contract award amounts to determine whether funding practices are consistent with the department's objectives and strategic business plan, or could be improved to more effectively meet the county's human services goals. DCHS should also consider whether contractor funding allocations should be linked to outcome performance.	Partially concur	DCHS will respond to this through the development of the DCHS 2007 Business Plan as part of the 2007 budget development process.  However, making funding practices consistent with the department's objectives requires changes in restrictions limiting the current contractor process. See item #2 above.	CSD's 2006 contracts align with the 2006 goals and core businesses of DCHS.
8. CSD should develop standards and expectations for conducting site visits and desk reviews, which are clearly and regularly communicated to contract staff. Periodic training should also be provided to ensure that contract staff understand how to review invoices and output and outcome data for contract compliance.	Concur	CSD monitoring policies will be reviewed and improved during the balance of 2006. Improvements to current standards will include making CSD site visit practices more consistent and comprehensive.  Contract and fiscal staff will also receive additional training on recently revised procedures for reviewing invoices, output and outcome data during the same period.	Standards are in place for frequency of site visits. Desk monitoring has already been improved. Some site visit policies already exist. These will be reviewed and expanded.  Annual contract training which begins in the third quarter of 2006 will emphasize the revised policies and standards. Initial training has already been provided on use of the new desk top modifications.

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## **AUDITOR'S COMMENTS TO EXECUTIVE RESPONSE**

The Executive response indicates concurrence with four of the eight recommendations. The Executive partially concurred with Recommendations 2, 3, 6, and 7. However, the explanations provided for partial concurrence appeared to be consistent with the intent of our recommendations. We acknowledge that changes in practice and policy would be necessary to implement these recommendations.

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